Important News for Metro Employees
Nearing Retirement

A New Lump-Sum Pension Benefit Option

Retiring? If so, you may be eligible for an exciting new benefit option: a lump-sum payment equal to one, two, or three years of your Metro pension benefit. This new option gives Metro employees more flexibility than ever to smooth their transition from full-time employment into retirement.

What is the new payment option?

It's known as a DROP Modified Lump-Sum, or DROP for short. Under Metro's version of the DROP, you can get one, two, or three year's worth of your pension benefit paid to you up front in one lump sum when you retire. The amount you choose will reduce your monthly benefit to an amount less than you would get if you did not elect the DROP. You can choose a lump-sum payment and smaller monthly benefit checks, or no lump sum and larger monthly benefit checks.

Does electing the DROP reduce my *total* pension benefits?

No. The total value of your pension benefit over your life expectancy remains the same. However, your monthly benefit will be permanently reduced.

Who's eligible for the DROP option?

Active employees in Divisions A and B who are eligible for a normal service pension and have completed at least 25 years of service are eligible. Early pension retirees, disability pensioners, and pensioners receiving survivor benefits are **not** eligible for this option.

What's the advantage of a lump-sum payment?

It gives you more financial flexibility when you retire. You might use the money to pay off a mortgage, start a business, invest in an IRA, travel, or go back to school. Or, if you retire from Metro before you become eligible for Social Security, you can use the money to bridge the gap in your income until your Social Security benefits begin. Ultimately, how you use the money depends on your financial situation and retirement goals.

What's the disadvantage?

By taking the lump-sum payment, your regular monthly pension benefit will be permanently reduced. And, of course, once you spend the lump sum you receive, it's gone. (But remember: your total pension benefit over your life expectancy will remain the same). Before electing this option, be sure to consider whether a reduced monthly benefit, along with any other sources of income, will meet your needs in years to come. You should also consider the tax implications of receiving a "lump" of money, and you should recognize that electing the DROP lowers your future Cost of Living Allowance (COLA).

What should I consider before electing the DROP?
Make a plan. Talk to your tax advisor, your financial planner, your lawyer—or whomever you trust with your financial information. Consider both the short-term and the long-term consequences of choosing the DROP. Know what you want to do with the money before you get it.

When do I choose whether I want the DROP or not?
You elect the DROP upon your formal retirement from Metro, when you meet with a Metro Human Resources representative to choose your pension payment options. You are not required to make this election in advance.

When will the lump-sum option take effect?
Employees scheduled to retire June 1, 2003 and later may be eligible for this benefit.

When is the lump sum paid?
You will get this check sometime before you receive your second regular pension check. If you elect to roll it over to your 457 plan or IRA, the lump sum will be sent directly to your plan's custodian.

How is the lump sum calculated?
When you retire, you can request a DROP payment equal to one, two, or three years of your monthly pension payment. Metro will subtract this amount from your normal pension benefit, which will reduce your monthly pension benefit. (The actual calculation depends on your life expectancy and other factors). The amount of the lump sum you elect plus your reduced monthly benefit equals your normal service pension without the lump-sum payment. In other words, the total value of your pension benefit over your life expectancy *remains the same* with the DROP.

How does the DROP affect my survivor's benefit?
If you elect the DROP, you have the same choice in survivor options as a non-DROP retiree. Any monthly pension benefits available to you or your beneficiary will be reduced to reflect the amount of the DROP lump sum. The total value of the benefits paid to you and your survivor will be the same regardless of whether you elect the DROP or not.

How does the DROP affect my future Cost of Living Allowance (COLA)?
Annual cost of living increases are based on your initial monthly benefit. By electing the DROP, your monthly pension benefit will be lower than if you had not elected the DROP. As a result, the COLA will be based on a lower benefit and will be less.

How does the DROP affect Social Security?
Your Social Security retirement benefits will not be affected by electing the DROP.

Where can I find out what my monthly payment would be if I elect the DROP?
Before you retire, a Human Resources representative will give you specific information about your monthly pension benefit with or without the DROP. You may also consult the Retirement Pension Estimator—available on the Metro website at http://www.nashville.gov/hr_benefits/Handbook/Retirement/index.htm to estimate your monthly pension benefit with or without the DROP.

Is the lump-sum payment taxable?
Yes. In general, lump sum payments are subject to ordinary income tax—just like your monthly pension benefit. When your payment is issued, 20% of it will be automatically withheld for federal tax purposes. The 20% is not a tax but an amount withheld to be applied to your taxes. When you file your taxes, you may receive a refund of part of this amount depending on your particular situation, or you may owe more.

If you retire in a year before you turn age 55, your payment may be subject to a 10% tax penalty for early withdrawal. If you chose to rollover your lump sum payment to your 457 plan or IRA, you may avoid the 20% withholding, but may pay a 10% penalty for early withdrawal if you withdraw the money before age 59 ½ .

As a general rule, you can get the money without penalty at an earlier age if it's invested in a 457 plan vs. an IRA. Money rolled over to your 457 plan will be subject to the 10% penalty if it is withdrawn as a single sum before the year in which you turn age 55. In contrast, money rolled over to an IRA will be subject to the 10% penalty if it is withdrawn as a single sum prior to the age of 59 ½. You may also rollover a portion of the lump sum and have the remainder issued to directly to you (20% will be withheld on your portion). Depending on your financial situation, there may be other tax implications. Before electing this option, be sure to consult your financial advisor.

Thinking of investing your DROP payment?
Metro's pension plan uses an assumed interest rate of 8%. This information may help your financial advisor determine if taking the DROP, or leaving the money in, makes more sense.

Where can I get information about my other pension payment options?
You'll find descriptions of each option in your copy of the *Inside Metro Human Resources Guide* and in the Benefits section of Metro's website (www.nashville.gov).

NOTE: This document is an overview of the Metro DROP Modified Lump-Sum Option. If there is any difference between this overview and the official plan document, the plan document will govern. For more information, call Metro Human Resources (615) 862-6700.